
Crony Capitalism versus Pure Capitalism

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It is an honor and a pleasure to comment on Michael Munger and Mario Villarreal-Diaz’s essay “The Road to Crony Capitalism.” Their thesis is that crony capitalism is like a pox that has always infected real markets and is likely to rear its ugly head even more in the future, too (my paraphrase). I am in strong support of this proposition. I think they offer a crucially important theory. If we are to promote liberty and prosperity, we must be intimately aware of barriers to these ends, and crony capitalism is high up on the list of all such impediments.

I could go in one of two ways in my response to this paper, and I am tempted by both. First, I could cite each and every point of theirs I think is crucially important—and there are many—congratulate the authors upon them, and “pile on” (as is prohibited in football): reiterate their insights in my own words, offer more examples in support of them, and add to the references they already cite in behalf of their argument. Or, second, I could offer a critical look; there are a few points—admittedly unimportant and irrelevant to their splendid thesis—with which I disagree. I chose the second path for two reasons: it is more congruent with my own personality and intellectual perspective, and I think I can in this way make more of a contribution to the warding off of crony capitalism, a goal I fervently share with these authors.

Munger and Villarreal-Diaz begin their superb essay with the claim that the core contribution of Friedrich Hayek’s book *The Road to Serfdom* (1944) is that “attempts to plan the economy or manage prices put the society in danger of devolving into

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full-fledged socialism.” That, to be sure, is one of Hayek’s hypotheses. But we should not lose sight of another one, a far less salutary proposition: that crony capitalism, socialism, government intervention into the economy are really not all that bad. In my view, *The Road to Serfdom* is a highly flawed book, in which Hayek practically gives away the entire store. To wit, he compromises on a number of issues, such as rent control, welfare for the poor, and so on.¹ In my view, Munger and Villarreal-Diaz’s thesis so far remains inviolate, but they chose a poor platform from which to launch it.

Munger and Villarreal-Diaz use the phrase “a modern Hayek but of the left.” This implies Hayek was of the right. I regard him as an excellent Austrian economist (Hayek 1931a, 1931b, 1932, 1935a, 1935b, 1940, 1945, [1968] 2014), but with respect to political economy he was at best a fair-weather friend of pure free enterprise (Hayek 1944, 1960, 1973; Hoppe 2016). Not that people “of the right” are all that enamored of economic freedom. This appellation is typically applied to conservatives. Libertarians, in sharp contrast, occupy neither the right nor the left on the political spectrum but rather entirely reject that means of conducting political economic geography (Hultberg 2005; Gregory 2006; Block 2013).

Consider this statement by Munger and Villarreal-Diaz: “Is laissez-faire simply the first step on a kind of road to serfdom, where giant corporate syndicates achieve a parallel kind of economic planning every bit as pernicious as that feared by Hayek? Of course, the planning takes the form of cartelized industry, protection from competition, and restrictions on innovation, but it is planning nonetheless.”

There are some conflation here. There is nothing at all necessarily “cronyist” about “giant corporate syndicates” or “cartelized industry.” Cartels and mergers that are a “protection from competition and restrictions on innovation” are of course an entirely different matter. They are the very paradigm cases of crony capitalism. But the two pairs should not be treated in any such similar manner; they are polar opposites. Cartels and large firms are just as much an aspect of the pure free-enterprise system as any other forms of business. Large size alone should not be seen as untoward from the perspective of laissez-faire capitalism—provided, of course, it emanates from achieving efficiency, satisfying consumers, and outcompeting rivals with lower prices, higher quality, better service, and so on rather than from “protection from competition and restrictions on innovation, that is, with government help.”² Then there is that follow-up: “but it is planning nonetheless.” There is nothing problematic about “planning” per se. One polar opposite of planning is, of course, economic freedom. But another is chaos. All rational people “plan” their day, their careers, and so on. Hayek (1976) was particularly brilliant on this point.

1. On this view of *The Road to Serfdom*, see Block 1996, 2006.

2. Murray Rothbard ([1962] 2004) demonstrates that even if the “one big firm” arose from purely legitimate business operation, it would face problems similar to those encountered by the Soviet central-planning bureau: no market prices of the factors of production upon which to rely.

Munger and Villarreal-Diaz resort to the phrase *rent seeking* on numerous occasions in their essay. It mars their otherwise insightful verbiage. This horrendous phrase emanated from the highly problematic public-choice school (as discussed in DiLorenzo and Block 2017). I have no quarrel, none at all, with what it depicts: employing cronyist manipulation, seeking subsidies from government, precluding entry of competitors, and so on. But why, oh, why seize on the inoffensive, even honorific term *rent*? There is economic rent, which is entirely innocuous as a matter of technical economics. Then there is the ordinary use of the term, as when someone rents a car or an apartment. Equally unoffending. Why utilize such a word to depict something that is truly evil, such as crony capitalism? One possibility is that the public-choice scholars simply do not distinguish between good and evil.³ I have no trouble with what the term *rent seeking* is used to stand for. I am engaging, here, in a verbal dispute, but it is paradoxically an important one. Why not, instead, call a spade a spade and refer to this phenomenon with more appropriate appellations, such as *booty seeking* or *theft seeking* or *predation seeking* or *exploitation seeking* or *robbery seeking*?⁴

Next, consider this statement by Munger and Villarreal-Diaz: “[P]oliticians—whether elected or appointed—find it quite useful for their own purposes to ‘facilitate’ *exactly* the sorts of assemblies of business groups [Adam] Smith warned against. Encouraging corporate dependence on the state and collecting revenues from running artificial rent-seeking contests are primary money-making enterprises of successful politicians. The result is what Smith predicted: concentrated, often highly profitable (in a purely accounting sense) corporations with enormous market power” (emphasis in the original).

The problem here is that although, yes, there are some governmental policies that do indeed lead to greater market concentration, there are others that cut in the exact opposite way. As a result, it is a highly complicated empirical issue to determine which effect outweighs the other. Also, in some years government intervention quite likely leads to higher Herfindahl–Hirschmann indices, but in others the exact opposite may well occur. The difficulty is that Munger and Villarreal-Diaz implicitly assume that the one effect swamps the other, but they offer no supporting evidence for this contention.

Peter Klein mentions

a slew of government policies that favor large, complex, vertically integrated firms: direct subsidies, of course, but also indirect benefits from intellectual property law, bootlegger-and-baptist-style restrictions on market entry, transportation subsidies, various aspects of the tax code, etc. From this

3. For more on this point, see DiLorenzo and Block 2017, part 5.

4. However, it must be noted that “rent seeking” has a nongovernmental aspect. Three brothers are nicer to their elderly rich father than they would have been were he not so wealthy. Then they are “rent seeking.” (I owe this point to Kevin Vallier). But, even here, why pick on the poor, disabused word *rent*? Why not, instead, *wealth seeking* or some such term?

[some] conclude that smaller, more “egalitarian” enterprises, such as worker-owned cooperatives, would tend to flourish under the free market. The problem is that [this] argument cuts both ways. Certainly large firms benefit from the state. But so do small firms. Corporations are under stricter antitrust and regulatory scrutiny, are more likely to be the victims of political rent extraction . . . , and are subject to stricter disclosure requirements . . . than their smaller competitors. Small firms benefit from state-funded incubators, SBIR [Small Business Innovation Research] awards, regional development grants, and a host of other interventions designed to foster “entrepreneurship.” Trade barriers, war, state control of education, and a host of other interventions retard the international division of labor, reduce stocks of human capital, and lower the marginal product of labor, all of which reduce the scale and scope economies that favor large-scale production. Which set of effects outweighs the other? It is impossible to say, *ex ante*. (2008a)⁵

Then, of course, there is the government “too big to fail” policy. This policy certainly vitiates in favor of large concentrations. On the other side of the ledger, however, lies the fact that mergers of large-scale companies are much more likely to be scrutinized by the powers that be and then all too often rejected than are amalgamations of smaller enterprisers.⁶

What are we to make of another foray by Munger and Villarreal-Diaz:

Purists will counter that “we” shouldn’t sell legal protection or bottlenecking, but then the question simply evolves: Why would rational politicians eschew using their office to sell valuable services entirely within their legal power to provide? Paradoxically, if you believe that the pure form of capitalism is sustainable, you must claim that either corporate leaders or politicians, and probably both, are morally better than the rest of us. But that is just what most market enthusiasts would deny. Because, by the logic of the public-choice model, politicians are *not* better than the rest of us, then pure capitalism is unsustainable. Pure capitalism requires politicians to forego their own self-interest for the public good. (emphasis in the original)

The difficulty here is that there is “pure capitalism,” and then there is “pure capitalism.” What is this “pure capitalism”? The purest of the pure capitalism is the anarchocapitalism of Lysander Spooner ([1870] 1966), Murray Rothbard (1973, [1982] 1998),

5. There is an intensive debate on this very issue in the literature. Roderick Long (2008a, 2008b) takes a position similar to that of Munger and Villarreal-Diaz. In my view, however, Peter Klein’s (2007a, 2007b, 2008a, 2008b) critique of this perspective is definitive.

6. Mergers are “capitalist acts between consenting adults,” in the felicitous phrasing of Robert Nozick (1974, 163). Only a neoclassical economist, not an Austrian, would look askance at them.

Gustav de Molinari (1977), and Hans-Hermann Hoppe (2001). In this type of “pure capitalism,” there are no politicians at all, crony oriented or not. None whatsoever. If Munger and Villarreal-Diaz want to study whether this kind of pure capitalism—that is, of the anarchist variety—is stable or not, they must start from this point. Obviously, they do not because they use the dread word *politicians*.⁷ Thus, they are not really studying whether pure capitalism is stable or not. Rather, they are asking whether a system already suffering from cronyism will stay the same, worsen, or improve—in a free-enterprise direction. Do not misunderstand me. Theirs is an important quest. And it is a more realistic one than the one I am offering because pure capitalism—real, pure capitalism of the sort I am labeling as such—is scarce as hen’s teeth.⁸ But, still, Munger and Villarreal-Diaz are amiss in labeling the vestiges of capitalism from which we now benefit as anything like “pure capitalism.” Again, this is “purely” a verbal dispute. However, it is one that I think not totally unimportant.

I also cannot help but take issue with the following statement: “Even if sales people want to raise prices, their own self-interest leads them to offer lower prices to undercut the competition. Even if manufacturers want to scrimp on materials and cut corners, competitive pressures to maintain quality force them to work harder and improve their products.”

What are the problems here? First, sellers do not always want to raise prices or lower them. Rather, they want to set them so as to maximize profits, and that implies either an upward or a downward move—or no adjustment at all. Second, manufacturers also want to optimize profits, and that by no means implies scrimping or making improvements or standing pat. It all depends on the situation. One of the chapters in my book *Defending the Undefendable* ([1976] 2008) is titled “The Wastemaker.” There the case is made for *lowering* the quality of products. After all, inferior merchandise, too, has a role to play in the free economy. Some people actually prefer low-cost mediocre goods to pricier higher-echelon goods, and here is where scrimping and cutting corners are brought to an art form. Although competitive pressures force some businesses to improve quality of their products, the very opposite is also part and parcel of the free-enterprise system.

Our authors aver at the start of one sentence: “Even if everyone agrees that capitalism is the system that produces the most prosperity and growth overall—and that may be a big ‘if’ in today’s world . . .” In today’s world, it is a big “if” whether capitalism “produces the most prosperity and growth overall”?! Compared to what?⁹ Compared to

7. Due apologies to Ron Paul, Rand Paul, and a corporal’s guard of others.

8. There are some few actual examples: Peden 1977; Friedman 1979, 2006; Benson 1990; Runolfsson Solvason 1992; Long 1994; Clay 1997; Davies 2002; Stringham 2003; Thompson 2006; Leeson 2007; Powell, Ford, and Nowrasteh 2008. Then there is the fact that at present there is anarchy between nations. That is, Albania and Argentina are in a state of anarchy with one another in that there is no world government that controls both. Ditto for Brazil and Burundi, China and Chad, and others. Has this situation remained stable over the decades, even, centuries? Pretty much.

9. Joke: An economist was asked: “How’s your wife?” Came the answer: “Compared to what?”

the socialism of Cuba, North Korea, and Venezuela? Compared to command-and-control economies of most of Africa? According to *Economic Freedom of the World, 1975–1995* (Gwartney, Lawson, and Block 1996), there is a strong empirical connection between the amount of economic freedom in a society and its per capita wealth as well as its growth rate. Munger and Villarreal-Diaz are too generous to the scoffers. I don't see any big "if" here at all.¹⁰

Munger and Villarreal-Diaz quote Raghuram Rajan and Luigi Zingales that "nobody has a strong vested interest in promoting and defending free markets" (2004, x). They say "this claim accords with our overall thesis." But counterevidence abounds. Let us list the organizations that do indeed have a "strong vested interest" in doing exactly and precisely that—"promoting and defending free markets":¹¹ 1889 Institute, Acton Institute, Alliance for Market Solutions, American Enterprise Institute, American Institute for Economic Research, Americans for Prosperity, Atlas Economic Research Foundation, Atlas Foundation, Ayn Rand Institute, Cascade Policy Institute, Cato Institute, Competitive Enterprise Institute, Ethics and Public Policy Center, Federalist Society, Foundation for Economic Education, Freedom Center, Freedom Partners, Freedom Works, Free State Project, Free the People, the Fund for American Studies, Future of Freedom Foundation, Goodman Institute, Heartland Institute, Heritage Foundation, Hoover Institute, Independent Institute, Institute for Humane Studies, Institute for Justice, Institute for Objectivist Studies, Intercollegiate Studies Institute, James G. Martin Center, James Madison Institute, Koch Foundation, Libertarian Party, Liberty Crier, Liberty Fund, Liberty International, Libre Initiative, Mackinac Center, Manhattan Institute, Mercatus Institute, Mises Institute, Murphy Institute of Political Economy, National Association of Scholars, Pacific Legal Foundation, Pacific Research Institute, Property and Environment Research Center, Reason Foundation, Sea Steading Society, Society for the Development of Austrian Economics, Students for Liberty, Texas Public Policy Foundation, Young Americans for Freedom, Young Americans for Liberty.¹² In addition, there are almost fifty state free-enterprise organizations, such as the Pelican Institute in Louisiana.¹³

Munger and Villarreal-Diaz make much of the distinction between Karl Marx and George Stigler, supportively quoting the latter at length. My response to this approach

10. I am possibly being unfair to these authors at this point. It is plausible they meant to say that the "if" applies not to the fact that economic freedom leads to prosperity and socialism to the very opposite, but, rather, the question arises as to whether most people believe it or not. The text is a bit unclear on this matter. Given the popularity of Bernie Sanders, one might well question this claim.

11. I use alphabetical order here for simplification. I assure the reader this list is just the veritable tip of the iceberg.

12. Not all of these organizations are what I would consider 100 percent pure supporters of economic freedom. Other such lists are given elsewhere (see Chafuen 2016, 2017, 2018), but I cannot say that I fully support each and every institute mentioned on these lists in this regard.

13. My apologies to any and all worthwhile institutions I have inadvertently left off this list. Interested readers are invited to correct me on this matter; indeed, on any other error or infelicity for which I am responsible.

is that it is a bit like shooting fish in a barrel. Of course, Stigler is quite a bit better than Marx insofar as support for free enterprise is concerned, but Stigler is no better than he should be. He is a fair-weather friend of economic freedom. To wit, he was an avid supporter of antitrust law, a violation of economic freedom if ever there was one and a sharp move in the direction of crony capitalism.

Fred McChesney (1991) is particularly critical of all of the leading members of the Chicago School for their support of antitrust legislation and in particular of Stigler. He starts off by quoting Stigler: “If you propose an antitrust law,” states Stigler, “the only people who should be opposed to it are those who hope to become monopolists, and that’s a very small set of any society. So it’s a sort of public-interest law in the same sense in which I think having private property, enforcement of contracts, and suppression of crime are public-interest phenomena” (Stigler 1984, 46).

And then McChesney pounces:

Chicago’s views of antitrust face a second, and fundamentally more difficult, challenge. Much of the normative economic analysis on which Chicagoans relied in proclaiming victory is manifestly inconsistent with more fundamental positive notions of economics developed by Chicagoans themselves. In particular, Chicago’s positive approach to antitrust, viewing it as public-interest government intervention intended to correct market failure, squarely contradicts the now-dominant economic theory of regulation that Chicago itself popularized. The Chicago school of antitrust regulation, that is, runs counter to the Chicago school of regulation more generally. (1991)

The point is that whereas Munger and Villarreal-Diaz extoll the virtues of Stigler,¹⁴ McChesney quite properly depicts this Chicago economist and Nobel Prize winner with his pants down around his ankles. Stigler blatantly contradicts himself. If a firm acts fully in accord with free-enterprise principles, commits no fraud, engages in no cronyism, is guilty of nothing along that line, but grows sufficiently through voluntary merger and/or via the satisfaction of customers, it can still be found in violation of this profoundly antimarket law. This finding is a blatant contradiction of the free-enterprise ethic. Antitrust is the Achilles heel of Chicago economists in general and of Stigler in particular.¹⁵ Surely, there are better supporters of laissez-faire capitalism than Stigler with whom to compare to Marx.

14. Vis-à-vis Marx, for goodness sake.

15. Here’s a two part antitrust joke. Part 1: Three prisoners in a Soviet gulag are comparing notes as to why they were imprisoned. The first one says, “I came to work late, and they accused me of cheating the state out of my labor services.” The second: “I came to work early, and they convicted me of brown-nosing.” The third: “I came to work exactly on time, every day, and they imprisoned me for owning a Western wristwatch.” Part 2: Three U.S. jailbirds on antitrust violations. Says one of them, “I was found guilty of charging higher prices and thus profiteering. Another: “I offered lower prices and was jailed for cutthroat competition.” The third: “My prices were the same as everyone else’s, and I was held guilty of collusion.”

Munger and Villarreal-Diaz opine, echoing Karl Marx, that “capitalism creates conditions that inevitably lead to its own destruction.” What are the conditions? Cronyism, of course. But under true capitalism, pure capitalism, there are no bureaucrats and politicians with whom businessmen can make common cause in a symbiotic relationship in the first place.

Here is another statement by Munger and Villarreal-Diaz with which I wish to take issue: “In a sense, this is simply the Hobbesian dilemma: each economic agent would be better if *she* could give up the ability to seek rents and competitive protection from the state, provided that everyone else gives up the same rights and abilities” (emphasis added). A contributing factor to cronyism is feminism. What with their misbegotten notions of the male–female wage gap and the glass ceiling, with their insistence that accusations of rape must always be believed, and with their trashing of male–female relations, feminists have promoted cronyism to a degree consonant with the biggest businessmen theft seekers on the planet.¹⁶ And yet here we find Munger and Villarreal-Diaz, who presumably (no, definitely, given all their other work) oppose cronyism, making common cause with feminist cronies. Language is important. If the feminists had their way, certain words would be verboten: namely, disproportionately, the nomenclature necessary to combat cronyism. In using *she* instead of *he*¹⁷ in this context, Munger and Villarreal-Diaz are playing right into the hands of the cronies. They are aiding and abetting the very cronyism they oppose. Why surrender in this war over language to our intellectual and moral enemies without even putting up a fight? Does this criticism constitute nitpicking? No. We are involved in a war of words with the forces of all versions of cronyism, the feminist variety certainly included, and it behooves us to keep our powder dry.

Our authors discuss not pure capitalism but rather “whether capitalism in a democratic setting inevitably tends toward cronyism.” They are in error when they write: “We are simply pointing out that allowing real democracy may doom real capitalism.” A free-market system where politicians and bureaucrats are able, with the imprimatur of voters, to seize the property of other people, concoct barriers to entry, and so on is a contradiction in terms. To the extent there is “real democracy” running amok, there cannot logically be any such thing as real capitalism. The issue here is not merely that oil and water do not mix; political democracy and economic freedom are logically inconsistent. Rather, it is a matter of A versus non-A.¹⁸

I cannot see my way clear to agreeing with the following assessment by our authors: “To an outsider, the difference between real investment and cronyist investment may seem subtle. Firms may not enlist actual violence; licensing obligations

16. It is difficult to find a position more in favor of cronyism than feminism.

17. In my view, the pronoun *he* depicts all people.

18. For a thoroughgoing critique of democracy, see Hoppe 2001.

from government experts and permission requirements from competitors are quite enough to kill the capitalist goose that until now has been laying the golden eggs of prosperity.”

No actual violence? Forsooth. What can we suppose will happen to any businessman who disobeys a licensing requirement? Who ignores a government edict not to merge his company? Well, probably, violence will not be immediately employed by the all-loving government. A polite letter will presumably first be penned by a bureaucrat, informing the entrepreneur he is acting illegally. If this nonlicensed behavior persists, a less-polite letter will soon be sent out. There will eventually appear some men with blue coats, badges, and guns. Even then, actual force may not be employed, provided the “miscreant” is very polite and obeys every order from the police. But the persistent law breaker will end up in the hoosegow, and that is equivalent to a (nonviolent?) kidnapping. Government is predicated on the point of a gun; if there is not “actual violence,” there is always the threat thereof, which also violates the nonaggression principle of libertarianism.

Consider the following claim: “It is fair to object that the turn from market investing to political scheming is not ‘real capitalism.’ But our claim is that to maintain real capitalism requires that entrepreneurs and investors act irrationally by valuing the public good more than their own self-interest.”

Forget about crony capitalists for the moment. Let us talk about blue-collar thieves: arsonists, murderers, kidnappers, rapists, carjackers, and so on. Is it true that to achieve or maintain a peaceful, just society in which no such uncivilized behavior occurs requires that these criminals “act irrationally”? To ask this question is to answer it: of course not. Why, then, is there relatively so little of this sort of crime, whereas cronyism is so prevalent? It is simple. We have laws against burglary, fraud, pickpocketing, assault and battery, and so on. When people are convicted of these blue-collar crimes, they are punished by law. All that needs to be done is borrow a leaf from how we treat those criminals and apply it to crony capitalists. A businessman seeks a tariff? Put him in jail. A politician proposes a law that would restrict entry into an industry or profession? Sentence him, also, to time in the pokey. Munger and Villarreal-Diaz add the following: “In short, liberalism—like ‘real’ capitalism—requires forbearance.” No, it requires jail sentences for criminal crony violators of *laissez-faire* capitalism.

I cannot help but take issue with another statement: “In the United States, institutions such as the Bill of Rights can slow the process, . . . protecting women from majorities that want to limit reproductive freedoms.” I take this as an argument in favor of the pro-choice position on abortion. This is a highly contentious issue, very far removed from the subject of crony capitalism. It is improper to raise it at all because it is irrelevant to the authors’ main thesis. But if they wish to discuss it, at the very least they should cite arguments in behalf of this position, if not make those arguments themselves.¹⁹ They instead content themselves with virtue signaling.

19. For a critique of the pro-choice philosophy, see Block 2014.

In conclusion, Munger and Villarreal-Diaz make a valuable contribution to political economy, although it is not the one they think they are making, not the one they set out to make. In their view, they are attempting to judge the stability of laissez-faire capitalism and are dubious about its prospects. As I see matters, their starting point is not at all the pure free-enterprise system but rather our present mixed economy. Munger and Villarreal-Diaz inquire as to whether this system will move in the direction of further cronyism or not. Their contribution consists of very accurately analyzing the forces that tend to move us in that baleful direction.

My own take on this matter is that it is entirely an empirical issue. There are “robbery-seeking” forces that will tend to lead us in that direction. But there are also countervailing tendencies in the direction of more economic freedom (the libertarian movement, for example). Where we will end up in the next few decades, to say nothing of the next few centuries, is difficult to discern.

I will end by quoting Munger and Villarreal-Diaz on a point with which I fully agree: “It may be the case that cronyism and the tendency to demand redistributive state interventions are features of free-market capitalism. But so is a constant influx of creative individuals who demand adequate conditions to advance their productive efforts.” I had much to say in criticism of their paper, but I arrive at the same exact conclusion.

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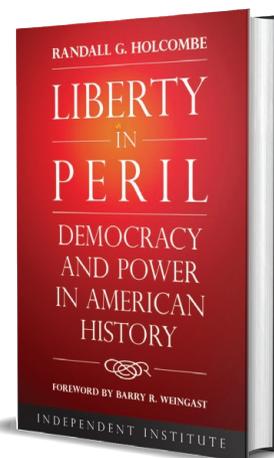
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